



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 8/4/2004

**GAIN Report Number:** BR4014

## Brazil

## Retail Food Sector

## The Retail Sector in Brazil

## 2004

**Approved by:**

Ron Verdonk, Director  
U.S.AGRICULTURAL TRADE OFFICER

**Prepared by:**

Fabiana Fonseca, Agricultural Marketing Specialist

---

**Report Highlights:**

This report presents an overview of the Brazilian retail industry, the primary food distribution channel in the country. This report provides an overview of South America's largest market and should help users better understand how it functions so that new-to-market suppliers can better plan an entry strategy for Brazil.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Sao Paulo [BR3]  
[BR]

## I. Market Summary

Brazilian president, Luiz Ignacio Lula da Silva, is wrestling with continuing the more fiscally conservative policies of the previous administration as political pressure is building to raise government spending. President Lula, a former union leader, has migrated somewhat from leftist, workers party roots, to a free market orientation, gaining significant credibility from foreign investors.

In February 2004, the government froze approximately 2 billion dollars in spending from this year's budget to make sure Brazil would meet its year-end primary budget surplus goal of 4.25 percent of gross domestic product. The high primary surplus, which does not include interest payments on debt and is stipulated in the country's loan agreement with the International Monetary Fund (IMF), serves as a guarantee to investors that Brazil will continue to pay down its public-sector debt.

The government maintains that the markets would punish any relaxation in fiscal policy, which would be bad for the economy and even worse for the government's approval ratings. Few economists take issue with the macroeconomic tools that have been applied and argue that is hardly surprising that a resounding recovery has not panned out. The economy has not expanded to its potential and fiscal policies have probably had an even greater dampening effect upon demand, slowing down productive investments and jeopardizing income. That said, as the following table shows, inflation has remained in check, the country continues to run a solid trade surplus and interest rates, though still high by international standards, have declined somewhat.

### ECONOMIC INDICATORS

	2000	2001	2002	2003	2004*	2005*
GDP Growth (%)	4.4	1.3	1.9	-0.2	3.7	3.9
Inflation-IPCA (%) (1)	6.0	7.7	12.5	9.3	5.9	5.1
Interest Rate-Selic (%) (2)	16.1	19.0	25.0	16.5	15.0	14.0
Total Exports (US\$ billion)	55.0	58.2	60.4	73.1	80.0	85.6
Total Imports (US\$billion)	55.7	55.6	47.3	48.3	54.0	60.2
Trade Balance (US\$billion)	-0.7	2.6	13.1	24.8	26.0	25.4
Current account (US\$billion)	-24.2	-23.2	-7.6	4.0	5.0	5.0
Average Exchange Rate (R\$-US\$)	1.83	2.35	3.54	2.90	2.95	3.10

Source: Brazilian Institute of Geography and Statistics (IBGE), Brazilian Central Bank, Secretariat of Foreign Trade (SECEX), Getulio Vargas Foundation (FGV), Research Institute for Applied Economics (IPEA)

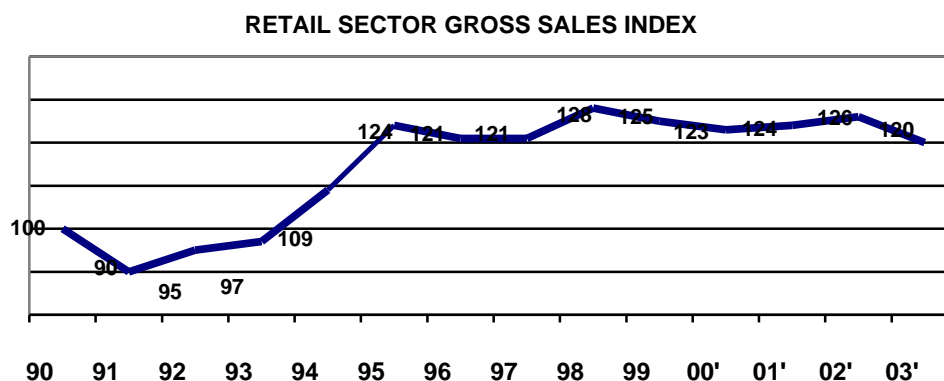
(1) IPCA is calculated by the Brazilian Institute of Geography and Statistics (IBGE). It is the Government of Brazil's target measure of inflation and measures price variation for products and services consumed by families with earnings from 1 to 40 minimum wage salaries in metropolitan areas of Porto Alegre, Belo Horizonte, Recife, Sao Paulo, Belem, Fortaleza, Salvador, Curitiba, Distrito Federal and Goiania.

(2) SELIC refers to the Brazilian Central Bank interest rate.

(\*) Forecast

As a result of the lack of economic growth in 2003, consumers lost purchasing power; hence Brazil's local retail industry also registered negative results. The sector's gross sales were valued at R\$87.2 billion in 2003, which represented 9.3 percent growth in nominal terms compared to the previous year, however, applying the IPCA deflator it shows a depreciation of 4.7 percent, cutting revenues to R\$76.01 billion. According to the Brazilian Institute of

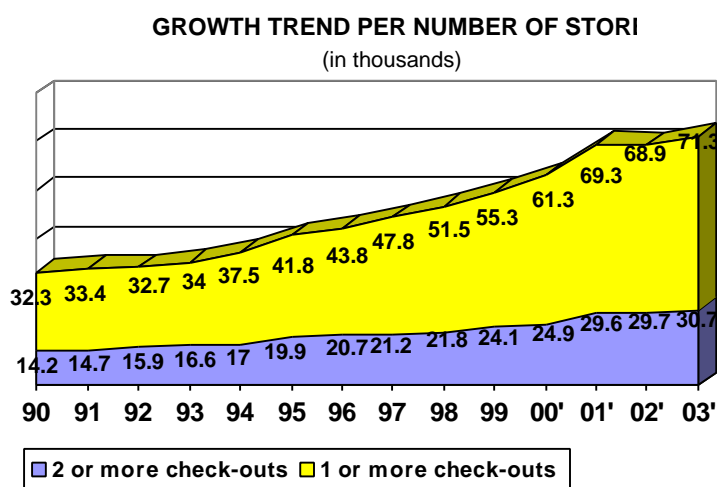
Geography and Statistics (IBGE), the sector accounted for 5.8 percent of GDP, the sum total of which was R\$1.514 trillion.



Source: ABRAS/ACNielsen

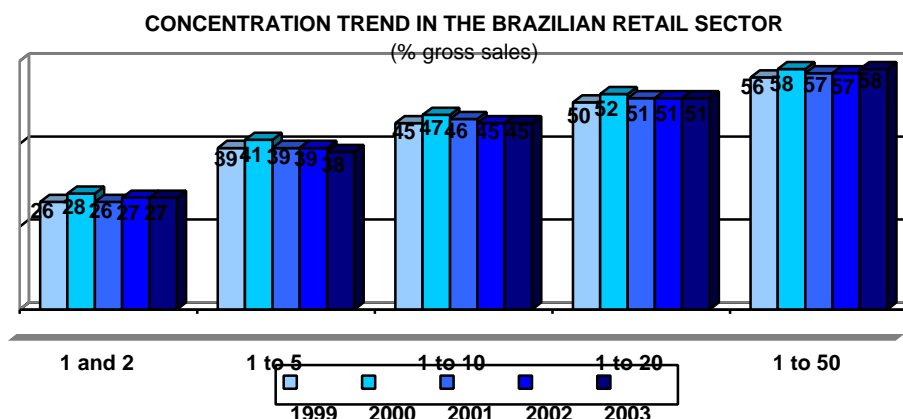
Despite the disappointing retail results, direct investments increased more than expected. In 2003, investments made by 229 retailers reached R\$ 1.5 billion. This amount is 14.2 percent more than the total resources invested in 2002 and also 67 percent greater than estimated at the beginning of the year. According to the Brazilian Supermarket Association (ABRAS), 71 percent of the total amount was invested in new stores and reconstruction. In 2004, approximately 300 stores are scheduled to be opened, corresponding to close to R\$1 billion in new investment.

In 2003, the total number of stores increased to 71,372. This represented 3.6 percent growth compared to 2002, while the number of stores with more than 2 checkouts grew by 3.4 percent. Of the total number of outlets, 43 percent are stores with more than two checkouts. This format of store accounted for 89.1 percent of gross retail sales in 2003.



Source: ABRAS/ACNielsen

The level of concentration of the retail sector in Brazil is below the international average, which goes beyond 50 percent in some Latin America countries and reaches 90 percent in a number of European countries. In 2003, the top 5 retail companies in Brazil represented 38 percent of gross sales; this trend has been stable for the last 5 years. However, year-end data for 2004 will reflect higher industry concentration because, Cia Brasileira de Distribuicao (also known as Pao de Acucar Group) has formalized an association with Sendas, Rio de Janeiro's largest retailer, and Walmart purchased the Bompreco chain.



Source: ABRAS/ACNielsen

Once again, the format of stores up to 250 square meters has demonstrated significant growth. In 2001, this store size represented 16.3 percent of the total number of stores, jumped to 19.3 percent in 2002 and in 2003 corresponded to 29.1 percent. The number of items carried by this type of store has also increased 27 percent, on average. This validates new consumer patterns that emerged after the Real Plan (a set of economic measures to bring down inflation implemented by the former President of Brazil, Fernando Henrique Cardoso, in 1994). Today, an increasing number of Brazilian consumers have a preference toward smaller stores that are closer to home, which is the opposite behavior from the high inflation years.

## STORES BY SIZE

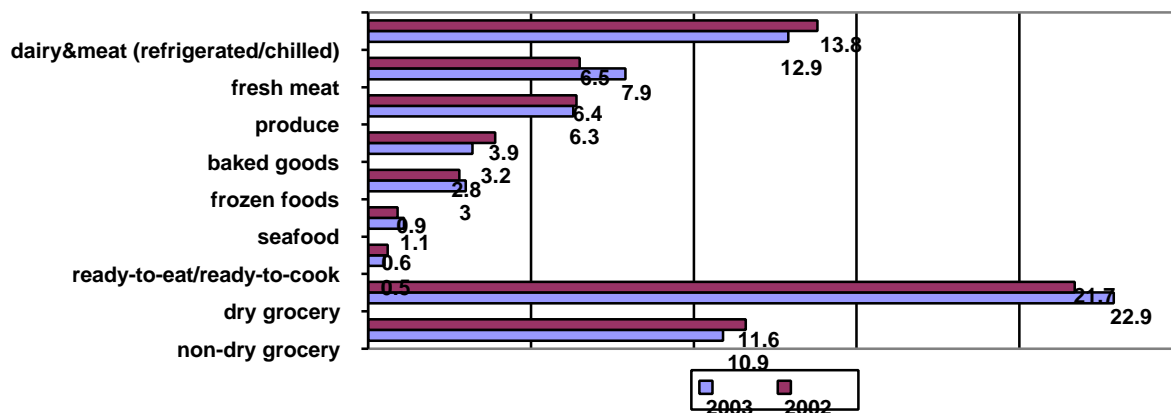
Sales area	Number of stores		Average number of checkouts		Average number of food items	
	2002	2003	2002	2003	2002	2003
up to 250 m?	1,032	1,081	2	3	3,381	4,135
251 to 1,000 m?	1,375	1,135	7	7	6,595	9,643
1,001 to 2,500 m?	986	957	21	13	9,801	10,618
2,501 to 5,000 m?	295	303	29	25	12,971	13,185
above 5,000 m?	198	221	44	45	21,410	23,220

Source: ABRAS/ACNielsen

Generally, the product mix in Brazilian supermarkets is broken into 3 major categories: perishables, food and nonfood grocery and general merchandise. To monitor sales performance of each group, ABRAS conducted research in 2003 with the top 500 retail companies representing 67 percent of revenues. The study showed that perishables represent 34.4 percent of total sales, while grocery and merchandise represent 47.2 percent

and 14.9 percent, respectively. Other miscellaneous items counted for 3.5 percent. All together, food items generated 68.7 percent of gross sales in 2003, showing a slightly increase compared to 2002 when sales of these items represented 68.2 percent.

#### SHARE OF FOOD & BEVERAGE ITEMS AT BRAZILIAN SUPERMARKETS



Source: ABRAS/ACNielsen

Imported products have also gained share. From the 500 retail companies interviewed, 54 percent carried imported items. In 2002, only 28 percent responded positively, against 33 percent in 2001. Taken as a whole however, imported foods and beverages represent something less than five percent of overall retail sales.



Source: ABRAS/ACNielsen

Specialty stores are not a subject of ABRAS analysis, however, it is estimated that the presence of imported items may reach from 10 to 70 percent in these small independent stores. These stores tend to be located in metropolitan areas of the Southeast region due to higher per capita incomes. In 2003, the Southeast region of Brazil accounted for 58.3 percent of retail sales, the South for 19.1 percent, the North and Northeast for 17.3 and Center-East for 5.3 percent.

Given this outlook, there are challenges and advantages to be investigated prior to entering the market, as illustrated below:

ADVANTAGES	CHALLENGES
More supermarkets are showing interest in selling imported goods.	Brazil is self-sufficient in food supply. An imported product is a luxury item and not a necessity. Retailers offer foreign goods to differentiate themselves and develop new niche markets. Therefore, US exporters may start selling small volumes and also be asked for a wider variety of products.
Price is not always the determinant purchase criteria for high-end consumers.	High-end consumers are more demanding regarding other aspects of products such as innovation, packaging, status, new trends, etc.
The US food industry is able to respond to consumers' demand promptly, regardless of the segment of products.	Brazilian consumers/importers have limited knowledge of US food products. US food products are often associated with fast food in the consumer's perception.
As a developing economy, Brazil still is very sensitive to international turbulence in addition to its own internal issues.	Learn how to operate in an up-and-down environment where long-term planning is not easy to implement or predict.

## II. Road Map for Entry

### A. Entry Strategy

When approaching the Brazilian market, exporters should be aware that most imported foods and beverages considered FMCG are not price competitive compared to locally produced products as the average exchange rate in 2003 was R\$2.90 to US\$1. The Brazilian food industry is well developed and the presence of major multinational companies contributes to making the overall sector quite competitive.

Products imported from Mercosul members (Argentina, Paraguay and Uruguay) enjoy duty-free status and Chilean products face a lower duty rate. So products from these countries are more able to compete with those of local companies.

According to importers, the shelf price of imported goods is from 2-4 times the FOB price at origin; therefore, US importers need to evaluate the extent to which their products jibe with this reality and maintain their salability. Brazilian high-end consumers are willing to pay more Reais for certain products. In fact, the market for luxury products is booming. For this niche market, emotion may overtake reason, thus, conducting primary research to determine whether the market offers real opportunities is crucial.

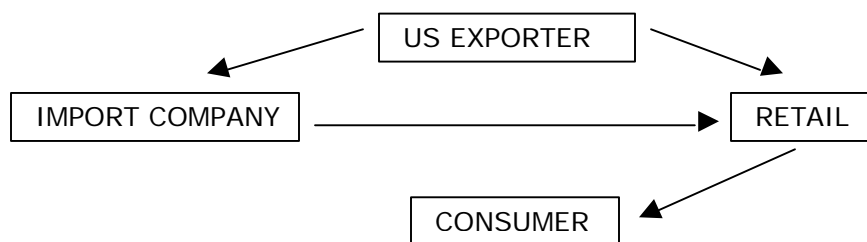
Because approximately 80 percent of food distribution takes place through retail stores, developing a relationship with retailers will be more likely to guarantee visibility and countrywide coverage. The commercial power of the retail industry vis-à-vis food suppliers has continuously increased over the past ten years. That is, in 1994 with the implementation of the Real Plan and through the rest of the last decade, imported products became a true alternative to domestically produced goods, even though today the percentage of imported products in retail sales is quite small. Retailers are well aware of their importance in the food distribution system and of their advantageous position vis-à-vis suppliers. While retailers exert considerable purchasing power and reach the overwhelming majority of Brazilian households, their purchasing of imported products can be summarized as follows: wide

selection in small volumes. Non-Brazilian products may be imported directly from the producer or purchased in the local market from a local importer/distributor. US exporters may approach these two potential buyers to further develop a market strategy.

US exporters should always consider the local US Agricultural Trade Office (ATO) as an initial source of information and support. The ATO maintains direct contact with the major players in order to facilitate market entry and is also able to provide assistance on Brazilian legislation and standards for imported goods. US companies can test market through ATO marketing activities and also profit from its market intelligence.

## B. Market Structure

Foreign products are distributed in the Brazilian market mainly through specialized importers or retailers. Major retailers are willing to import directly in order to obtain better margins. However, when volumes do not reach an advantageous level in financial terms, retailers buy from local importers/distributors. While avoiding the middleman is a general goal, it only happens if retailers are able to fill containers and keep overhead costs in check. The most preferable option is mixed containers. Brazilian buyers are hesitant to purchase full containers and on the other hand, US suppliers are oftentimes unwilling to deal with small volumes. This situation has restricted entry of new US products in the Brazilian market.



## C. Company Profiles through 2003

RETAILER NAME	OWNERSHIP	SALES (R\$ MIL)	SHARE	No. of OUTLETS	LOCATION	PURCHASING AGENT TYPE
1- Cia. Brasileira De Distribuicao (Pao de Acucar, Extra, Se, Compre Bem)	Brazil/France	12,788	14.6	497	South Southeast Center-East Northeast	LFP, DI, LI
2- Carrefour (Carrefour, Champion, Dia Brasil)	France	11,028	12.6	329	South Southeast Center-East North Northeast	LFP, DI, LI
3- Sonae (Big, Mercadorama, Nacional, Maxxi)	Portugal	3,732	4.2	148	South Southeast	LFP, DI, LI
4- Bompreco* (Bompreco, Balaio)	<u>Netherlands</u>	3,442	3.9	118	Northeast	LFP, DI, LI
5- Sendas**	Brazil	2,273	2.6	76	Southeast	LFP, DI, LI
<b>TOTAL TOP 5</b>		<b>33,264</b>	<b>37.9</b>	<b>1,168</b>		

RETAILER NAME	OWNERSHIP	SALES (R\$ MIL)	SHARE	No. of OUTLETS	LOCATION	PURCHASING AGENT TYPE
6- Wal-Mart (Wal-Mart, Todo Dia, Sam's Club)	US	1,940	2.2	25	South Southeast	LFP, DI, LI
7- Cia. Zaffari	Brazil	1,182	1.4	26	South	LFP, DI, LI
8- Coop	Brazil	940	1.1	21	Southeast	LFP, DI, LI
9- G. Barbosa	Netherlands	923	1.1	32	Northeast	LFP, DI, LI
10- Irmaos Bretas	Brazil	811	0.9	40	Center-East	LFP, DI, LI
<b>TOTAL TOP 10</b>		<b>39,062</b>	<b>44.6</b>	<b>1,312</b>		

Note: LFP (local food processors), DI (direct imports), LI (local importers). Note: BomPreco was acquired by Wal-Mart from Ahold in March 2004 and Sendas became an associate chain of Cia. Brasileira De Distribuicao

Source: ABRAS/ACNielsen

### III. Competition

Most of imported products supplying Brazil today arrive from Mercosul suppliers, as trade among this economic bloc is duty-free. Products sourced from within the member countries are price competitive with local products or at least not price-prohibitive. The European Union is the second largest player in the market, aggressively promoting its premium products and targeting high-end consumers. With the advantage that Brazilian upper-class eating habits are strongly influenced by Europeans, EU products are naturally viewed as being traditional and sophisticated, placing them as a leading trader in the high-end products segment.

The EU is a direct competitor for US products. However, despite the EU's favorable position, U.S. companies are able to offer the same standards of products that EU suppliers do and can increase market share in the Brazilian market.

#### BRAZIL'S IMPORTS OF CONSUMER-ORIENTED PRODUCTS (US\$ million)

	2000	Share (%)	2001	Share (%)	2002	Share (%)	2003	Share (%)
Mercosul	1,003.9	63.5	635.5	55.6	649.7	58.5	602.9	60.6
EU	303.7	19.2	263.9	23.1	232.7	21.0	205.0	20.6
U.S.	104.3	6.6	92.1	8.0	82.6	7.4	72.4	7.3
Others	168.4	10.7	151.7	13.3	145.3	13.1	114.6	11.5
Total	1,580.3	100.0	1,143.2	100.0	1,110.3	100.0	994.9	100.0

Source: Brazilian Secretariat of Foreign Trade (SECEX)

### IV. Best Product Prospects

#### A. Products present in the market which have good sales potential

According to ACNielsen, from 1994 to 2003 product categories indicating the most significant growths in volumes are the following: fruit juices (1263 percent), cake mixes (582 percent), aseptic milk (552 percent), dog food (410 percent), spirits/sport drinks (378 percent), cappuccino (372 percent), meat cuts/cold (348 percent), flavored milk (340 percent), cakes (334 percent), ready to serve desserts (309 percent), instantaneous pasta (286 percent), breakfast cereals (272 percent) and cat food (243 percent).



Focusing on imports, products representing good sales potential are those that in their original market also target high-end consumers or are well known brands. In addition Brazilian importers/distributors usually prefer products of six months shelf life or more. The segments of the population that can buy imported products regularly are estimated in 5-8 million individuals. For this audience, in addition to the product itself, its packaging, status, level of innovation, etc are important attributes. Products that combine these characteristics are more likely to successfully enter the market.

According to ATO analysis, in the past five years, consumer-oriented food product categories that have demonstrated the best performance in the market are: snack food, wine/beer, fruit/vegetable/nuts (fresh/processed), dairy products, red meats (prepared/preserved), pet foods (dog/cat food) and seafood products.

#### **B. Products not present in significant quantity but which have good sales potential**

Health foods, especially natural and organic products, have a limited presence in the Brazilian market. The Brazilian food industry has not directed consistent efforts to develop these segments, as the consumer base is restricted to a slice of the Brazilian population, which is therefore less attractive when considering return on investment. There are limited suppliers in the market for these products and consequently prices are high to prohibitive. Small and medium-sized companies are responsible for 70 percent of local organic supply. According to the Institute of Biodynamics (IBD), sales of organic items are expanding rapidly, on average 40 percent/year. In the local market, prices of health foods, organic and natural products compared to conventional products are 40 to 300 percent higher. As the US industry for this segment has already achieved gains in scale and prices for these products tend to be closer to those of conventional equivalents, exporters can find opportunities in the Brazilian market as the price of the imported product could still be lower compared to locally produced ones, regardless of the current exchange rate.

#### **C. Products not present because face significant trade barriers**

The Brazilian legislation requires all food items to be approved by Ministry of Health (MS) or Ministry of Agriculture, Livestock, and Food Supply (MAPA) prior to shipment. In general, there are no barriers towards importation of food products; nevertheless, there are procedures to be followed. Currently, poultry imports are banned (Brazil does not allow the entry of this item per reciprocity) and for products containing ingredients derived from biotech commodities there are also considerable restrictions.

#### **V. Post Contact and Further Information**

Please do not hesitate to contact the offices below for questions or comments regarding this report or require assistance to export processed food products into Brazil:

##### **US Agricultural Trade Office (ATO)**

Rua Henri Dunant, 700  
04709-110 Sao Paulo - SP  
Tel: (55 11) 5186-7400  
Fax: (55 11) 5186-7499  
E-mail: [atosaopaulo@usda.gov](mailto:atosaopaulo@usda.gov)  
[atobrazil@usdabrazil.org.br](mailto:atobrazil@usdabrazil.org.br)

##### **Office of Agricultural Affairs (OAA)**

Av. das Nacoes, quadra 801, lote 3  
70403-900 Brasilia - DF  
Tel: (55 61) 312-7000  
Fax: (55 61) 312-7659  
E-mail: [agbrasil@usda.gov](mailto:agbrasil@usda.gov)

